

Message Text

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21

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FM AMEMBASSY JAKARTA

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DEPARTMENT PLEASE PASS TO OPIC

E.O. 11652: N/A

TAGS: EINV, ID.

SUBJECT: WITHDRAWAL OF SPRINGS MILLS FROM P.T. DARALON

1. SUMMARY: AS DEPARTMENT MAY NOW BE AWARE, BOARD OF DIRECTORS OF SPRINGS MILLS INC., FORT MILLS, SOUTH CAROLINA, VOTED IN DECEMBER TO DIVEST ITS INTEREST IN P.T. DARALON, THE FIRST U.S. TEXTILE INVESTMENT IN INDONESIA, IN WHICH OPIC AND IFC ARE SENIOR LENDERS. OFFICIALS OF SPRINGS, OPIC AND IFC HELD MEETINGS IN JAKARTA JANUARY 30 - FEBRUARY 3 WITH GOI, EMBASSY, AND INDONESIAN SHARE-HOLDERS TO DISCUSS THREE RELATED PROBLEMS: A) TERMS OF SPRINGS WITHDRAWAL AND RELEASE BY CREDITORS, B) NEED FOR IMMEDIATE INFUSION OF WORKING CAPITAL IN NEXT FEW WEEKS TO KEEP PLANT OPEN, AND C) LOCATION OF BUYER ACCEPTABLE TO ALL PARTIES TO PURCHASE SPRINGS' INTEREST. GOI INVESTMENT BOARD CHIEF BARLI HALIM STRESSED TO PARTIES THAT PLANT MUST STAY OPEN AND BUYER FOUND, BY WHATEVER MEANS. SPRINGS, OPIC AND IFC AGREED, BUT DID NOT AGREE ON TERMS OF SPRINGS' WITHDRAWAL. THEY WILL MEET AGAIN IN WASHINGTON FEBRUARY 10. IN VIEW DARALON'S IMMINENT CASH PROBLEM, EMBASSY BELIEVES IT IMPORTANT FOR PARTIES TO REACH PROMPT AGREEMENT THAT WILL PROTECT OPIC AND IFC, FACILITATE IMMEDIATE NEW WORKING CAPITAL TO KEEP PLANT OPEN, AND ENABLE APPROACHES TO POSSIBLE BUYERS FOR LONG TERM SOLUTION. SPRINGS

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WITHDRAWAL FROM DARALON IS SETBACK FOR U.S. INVESTMENT IN

INDONESIA AS WELL AS GOI'S EFFORTS TO CONTINUE ATTRACTING FOREIGN CAPITAL. ORDERLY RESOLUTION OF PROBLEM, AND AVOIDANCE OF LIQUIDATION, WHICH COULD CREATE MORE SERIOUS DIFFICULTIES, THEREFORE IMPORTANT. END SUMMARY.

2. JOHN CULMAN, SENIOR VICE PRESIDENT OPIC, JUHDVIR PARMAR OF IFC, ROBERT HUDSPETH AND JAMES LASLEY OF SPRINGS HELD SERIES OF MEETINGS IN JAKARTA JANUARY 30 - FEBRUARY 3 TO INFORM GOI OF SPRINGS DECISION AND DISCUSS POSSIBLE SOLUTION. THEY ALSO MET WITH GOI INVESTMENT BOARD CHAIRMAN BARLI HALIM, AMBASSADOR AND EMBOFFS, AND CULMAN AND PARMAR MET WITH HALIM'S DEPUTY A. R. SOEHOED. AFTER FIRST MEETING WITH HALIM, SPRINGS ISSUED PRESS RELEASE IN U.S. ANNOUNCING WITHDRAWAL PLANS, AND NEWS HAD CIRCULATEE UWIDELY.

3. IN TWO MEETINGS WITH PRINCIPALS, WHICH EMBOFFS ATTENDED, BARLI HALIM ASKED SPRINGS TO RECONSIDER DECISION, NOTING GOI'S EFFORTS TO HELP TEXTILE INDUSTRY AND PRESIDENT SUHARTO'S PROMISE TO CRACKDOWN ON SMUGGLING, WHICH IS ONE OF SEVERAL FACTORS IN DARALON'S FAILURE TO MEET COSTS. WHEN SPRINGS REPRESENTATIVE SAID THERE WAS LITTLE HOPE HIS BOARD WOULD RECONSIDER, HALIM SAID GOI WOULD AGREE TO SUBSTITUTE FOR SPRINGS, BUT THAT PROJECT MUST CONTINUE AND PARTIES MUST NOT "LEAVE A MESS." GOI'S INTERESTS, HE SAID ARE A) CONTINUED PRODUCTION OF GOODS BY DARALON FOR INDONESIAN MARKET; B) CONTINUED EMPLOYMENT OF 800 WORKERS; AND C) CONTINUED USE OF TECHNOLOGY AND KNOWLEDGE THAT DARALON BRINGS TO INDONESIA. HALIM RAISED POSSIBILITY OF PURCHASE OF SPRINGS' EQUITY BY GOI DEVELOPMENT BANK BAPPINDO, AS TRUSTEE FOR SUBSEQUENT INDONESIAN BUYER, BUT DISMISSED IDEA AFTER LEARNING THAT BAPPINDO CAN ONLY PURCHASE NEW STOCK ISSUED TO FINANCE NEW FIXED ASSETS. HE URGED SEARCH FOR NEW WORKING CAPITAL FROM GOI AND U.S. BANKS IN JAKARTA, WHICH HAVE PREVIOUSLY REFUSED SHORT-TERM CREDIT ON BASIS OF DARALON'S BALANCE SHEET. IFC AGREED TO MAKE NEW APPROACH TO GOI BANKS, OFFERING, PERHAPS, DARALON'S INVENTORY AND OTHER UNMORTGAGED MOVABLES AS COLLATERAL.

4. SPINGS, OPIC AND IFC ALL AGREE THAT DARALON SHOULD CONTINUE OPERATING AND NONE AT THIS STAGE CONTEMPLATES FORCED LIQUIDATION OF ASSETS. HOWEVER, THEY WERE UNABLE TO AGREE ON COURSE OF LIMITED OFFICIAL USE

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ACTION. UNDER LOAN AGREEMENTS, SPRINGS MUST OBTAIN AGREEMENT FROM OPIC AND IFC FOR SALE OF ITS SHARES. UNRESOLVED QUESTIONS APPARENTLY INCLUDE A) TIMING OF SPRINGS' WITHDRAWAL, WHICH HAS IMPORTANT TAX CONSEQUENCES FOR SPRINGS AND WILL SUBSTANTIALLY AFFECT ITS 1976 QUARTERLY EARNINGS IN U.S., B) ASSIGNMENT OF RESPONSIBILITY FOR LOCATING A BUYER, AND C) WHETHER OR NOT SPRINGS WILL BE RELEASED BEFORE SUCCESSOR IS LOCATED.

5. SPRINGS REPRESENTATIVE LASLEY AND PRESIDENT OF DARALON HAVE ARGUED TO CREDITORS AND EMBASSY THAT IN VIEW OF CRITICAL FINANCIAL SITUATION REQUIRING NEW WORKING CAPITAL WITHIN NEXT MONTH, CREDITORS MUST AGREE IMMEDIATELY ON TERMS OF SPRINGS' RELEASE. UNTIL AGREEMENT IS REACHED, THEY SAY, ARRANGEMENTS CANNOT BE MADE TO BORROW BRIDGING WORKING CAPITAL AND BUYERS CANNOT BE APPROACHED WITH CONCRETE PROPOSAL. DESIRABILITY OF EARLY U.S. TAX WRITE-OFF IS KEY FACTOR IN SPRINGS' POSITION.

6. OPIC REPRESENTATIVE CULMAN CONCURS IN NEED FOR PROMPT RESOLUTION BUT STRESSED THAT TERMS OF RELEASE SHOULD ASSURE THAT SPRINGS' SHARE BURDEN IN FINDING SUCCESSOR, WHILE OPIC AND IFC ALSO PURSUE SEARCH.

7. OPIC, OF COURSE, HOPES U.S. SUCCESSOR CAN BE LOCATED; BUT SPRINGS BELIEVES IT WILL BE DIFFICULT TO INTEREST U.S. BUYER UNDER CIRCUMSTANCES; NATIONAL ORIGIN OF BUYER IS OF NO CONCERN TO IFC. DARALON'S PRESIDENT DOUBTS BUYER WHO COULD PROVIDE PROPER MANAGEMENT FOR COMPANY CAN BE FOUND IN INDONESIA, AND THINKS SUCCESSOR WILL PROBABLY HAVE TO BE FOREIGN COMPANY. INDONESIA SHAREHOLDERS HAVE NEITHER CAPITAL NOR EXPERIENCE TO SUCCEED SPRINGS. THEY HAVE NOT EXPRESSED PREFERENCE FOR PARTICULAR SOLUTION, BUT ALL PARTIES ARE AWARE THEIR COOPERATION IS NEEDED.

8. SPRINGS, OPIC AND IFC REPRESENTATIVES WILL RESUME NEGOTIATIONS IN WASHINGTON FEBRUARY 10 IN EFFORT TO AGREE ON TERMS OF RELEASE OF SPRINGS AND PLAN FOR IMMEDIATE SEARCH FOR NEW WORKING CAPITAL AND BUYER TO TAKE SPRINGS' EQUITY AND OPERATE PLANT. SPRINGS IS OBLIGATED UNDER MANAGEMENT CONTRACT TO OPERATE PLANT FOR A PERIOD, IF NECESSARY, EVEN AFTER TRANSFERRING ITS EQUITY.

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9. SPRINGS' DECISION TO WITHDRAW FROM DARALON IS SETBACK FOR U.S. INVESTMENT IN INDONESIA AND FOR GOI'S EFFORTS TO CONTINUE TO ATTRACT U.S. AND OTHER PRIVATE FOREIGN INVESTORS. ALTHOUGH DARALON'S DIFFICULTIES APPEAR TO BE BASED MORE ON INTERNAL FINANCIAL AND MANAGEMENT PROBLEMS THAN CONDITIONS IN INDONESIA, MANY WILL ASSUME THE LATTER.

10. EMBASSY BELIEVES USG OBJECTIVE SHOULD BE TO ENCOURAGE RAPID AGREEMENT AMONG PARTIES SO THAT IMMEDIATE WORKING CAPITAL CRISIS CAN BE SOLVED AND THAT ALL PARTIES, INCLUDING SPRINGS, ARE COMMITTED TO FINDING A SUCCESSOR, CONTINUED INVOLVEMENT OF SPRINGS, IF IT IS PRACTICAL, WOULD PREVENT GOI FROM EXPECTING INCREASED RESPONSIBILITY FROM OPIC AND THEREFORE USG FOR SOLUTION. GOI HAS MADE CLEAR IT DOES NOT ACCEPT CLOSING

OF PLANT AND LIQUIDATION OF ASSETS AS ALTERNATIVE. EVEN IF
GOI CONSENTED, LIQUIDATION WOULD BE FRAUGHT WITH LEGAL AND
ADMINISTRATIVE PROBLEMS, AND COULD RESULT IN MAJOR LOSSES TO
CREDITORS AND PERHAPS FURTHER HARM TO U.S.-INDONESIAN INVESTMENT
RELATIONS.
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